

# FACT SHEET: Growing Our Economy and Strengthening Our Financial System

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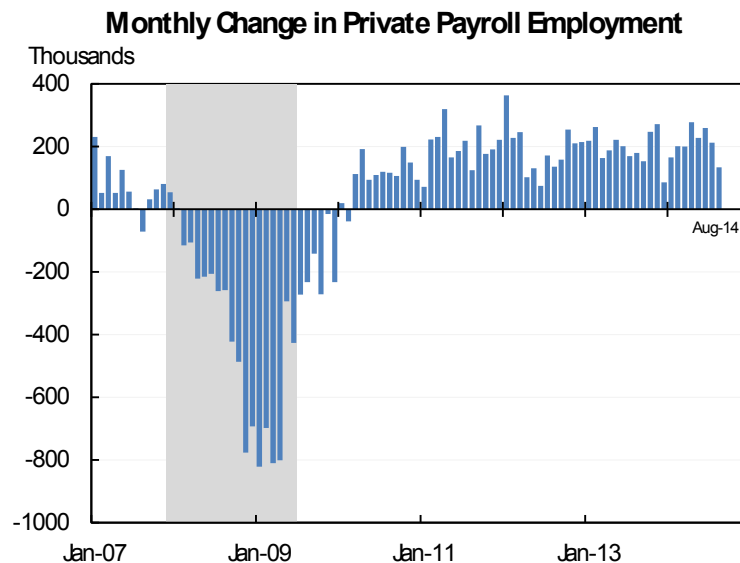
## STATE OF THE ECONOMY

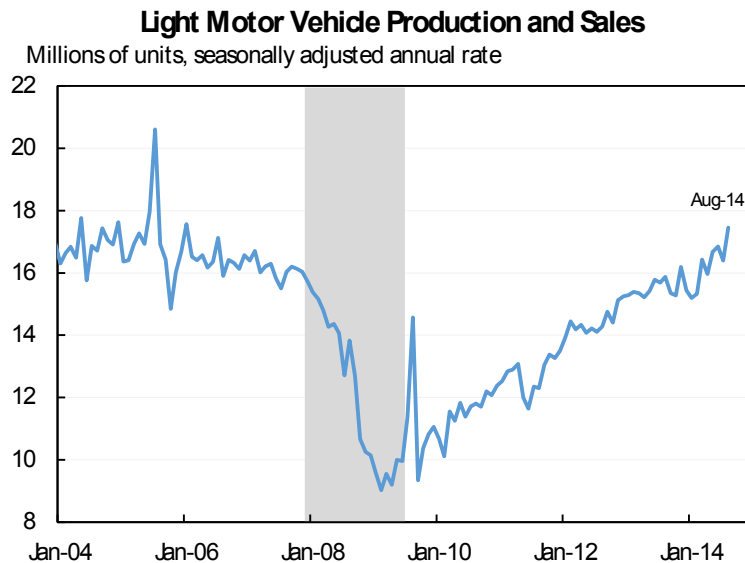
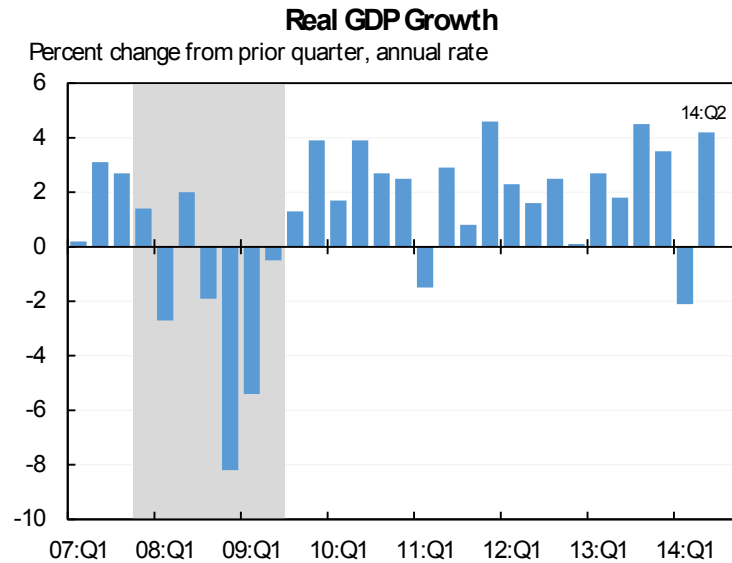
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### *Economic Overview*

Six years after the financial crisis that caused the worst recession since the Great Depression, our nation's economy continues to grow stronger. Over the past 54 months, businesses have added 10 million new jobs, the longest stretch of private-sector job growth in our nation's history. While we still need to do more to strengthen the economy for the middle class, recent data shows the progress we have made:

- The unemployment rate has decreased rapidly over the past year to reach 6.1 percent in August 2014. Importantly, long-term unemployment – while still elevated – is also declining. The fall in the long-term unemployment rate accounts for three-quarters of the decline in the overall unemployment rate over the past 12 months, a disproportionately large share considering that the long-term unemployed represent approximately one-third of the total jobless population.
- The housing market is recovering, and rising home prices brought 4 million households out of negative equity in 2013 alone. The number of seriously delinquent mortgages is at the lowest level since 2008.
- Real GDP grew at a robust 4.2 percent annual rate in the second quarter of this year. Auto sales in August reached their highest levels since 2006, and the major measures of consumer sentiment are at or near their post-recession highs.





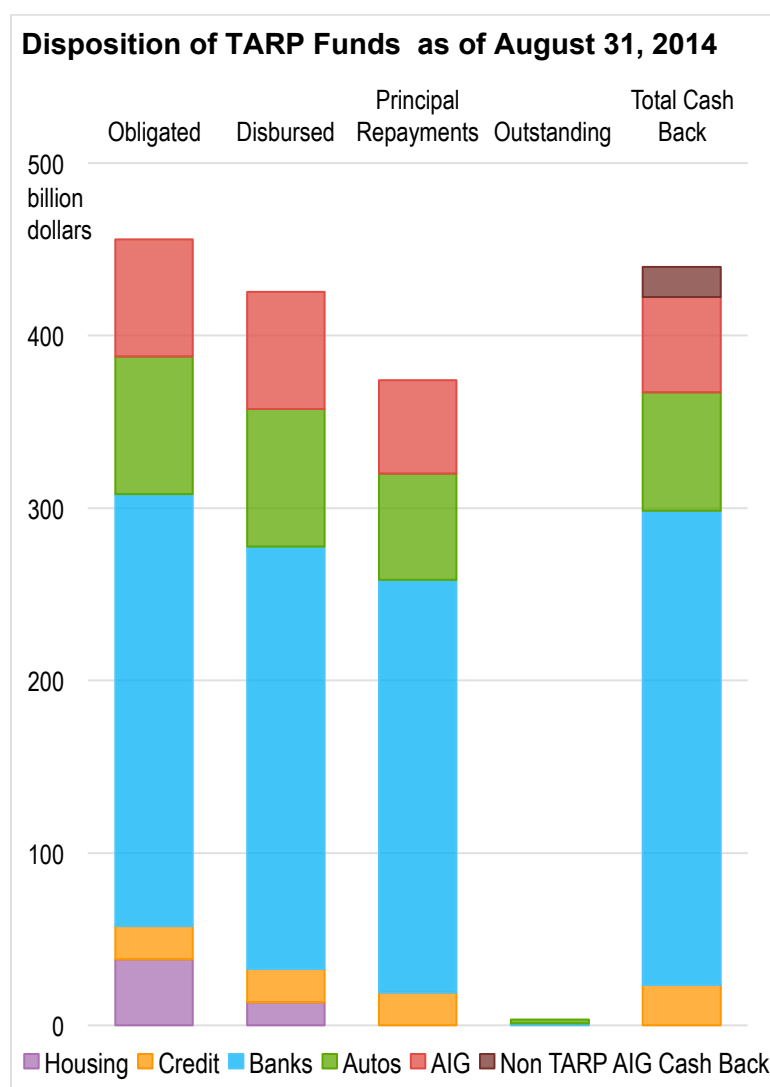

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## OVERVIEW OF THE FINANCIAL CRISIS RESPONSE

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The federal government tackled the financial crisis on several different fronts, including through actions taken by the Treasury Department, the Federal Reserve, and other federal agencies. Under Treasury's Troubled Asset Relief Program (TARP), the government took decisive action to mitigate threats to the financial system that would have further damaged the economy. Today, it is clear that TARP worked – helping to restore the nation's financial stability and prevent a second Great Depression. And it did so at a fraction of the cost projected when the legislation was passed.

- Although Congress initially authorized \$700 billion for TARP in October 2008, that authority was reduced to \$475 billion by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). To date, approximately \$425 billion has been disbursed, and almost \$440 billion has been recovered, including proceeds from Treasury's non-TARP AIG shares.<sup>1</sup>
- Today, Treasury is continuing to wind down the remaining TARP investments while continuing to implement programs to prevent avoidable foreclosures and stabilize neighborhoods.



<sup>1</sup> Treasury's investment in AIG common shares consisted of shares acquired in exchange for preferred stock purchased with TARP funds (TARP shares) and shares received from the trust created by the FRBNY for the benefit of Treasury as a result of its loan to AIG (non-TARP shares). Treasury managed the TARP shares and non-TARP shares together, and disposed of them pro-rata in proportion to its holdings.

### ***Auto Industry***

At the peak of the financial crisis, GM and Chrysler were on the verge of collapse. TARP stabilized the American auto industry, saving more than a million jobs. To date, taxpayers have recovered more than 86 percent of their nearly \$80 billion investment in the auto industry, including repayments, sales of stock, dividends, interest and other income.

- In December 2013, Treasury fully exited its investment in GM, with the total proceeds from sales of stock, dividends, interest, and other income reaching approximately \$39 billion.
- In May 2011, Chrysler repaid its outstanding TARP loans six years ahead of schedule. About \$11.1 billion of the approximately \$12.4 billion committed to Chrysler was returned to taxpayers through principal repayments, interest, and cancelled commitments.
- Treasury is in the process of exiting its remaining 13.8 percent stake in Ally Financial, who was critical to ensuring that General Motors and Chrysler dealers still had the ability to provide car loans to their customers and obtain the financing they needed to run their businesses. As of September 12, 2014, taxpayers have recovered approximately \$18 billion on the Ally investment, roughly \$873 million more than the original \$17.2 billion investment.
- Since Chrysler and GM emerged from bankruptcy in mid-2009, the auto industry has added 481,000 jobs, the industry's strongest job growth since the 1990s.

### ***Bank Investment and Credit Market Programs***

TARP stabilized the banking system and restarted the flow of credit to businesses and households. To date, TARP's bank programs have earned significant positive returns for taxpayers. As of August 31, 2014, Treasury has recovered \$274.6 billion through repayments and other income -- \$29.5 billion more than the \$245.1 billion originally invested.

The final investment under the Capital Purchase Program (CPP) – the largest bank program under TARP – was made in December 2009. Of the 707 banks that received TARP investments through CPP, only 43 remain in the program.

### ***Housing***

TARP is continuing to help homeowners avoid foreclosure through its housing programs. These programs lower monthly mortgage payments to affordable levels and address problems such as negative equity, second liens, and unemployment.

- As part of the Administration's ongoing efforts to support struggling homeowners, Treasury recently extended its cornerstone housing program, Making Home Affordable (MHA), until at least December 2016. To date, MHA has directly helped more than 1.5 million families struggling with their mortgages, and has indirectly helped millions more

by setting new standards for sustainable modifications that have been widely adopted across the mortgage servicing industry.

- TARP also provides funds directly to the hardest hit states to implement programs that respond to their particular needs. The Hardest Hit Fund is helping prevent foreclosures and stabilize neighborhoods through 71 locally tailored programs in 18 states and the District of Columbia, with approximately two-thirds of program funds targeted to helping unemployed borrowers.

### ***AIG***

TARP, along with actions taken by the Federal Reserve, prevented a potentially catastrophic collapse of AIG that could have dramatically exacerbated the severity of the financial crisis. The Federal Reserve and Treasury, through TARP, invested \$182 billion in AIG. As of March 2013, all of this investment has been recovered, plus nearly \$23 billion in positive returns for taxpayers.

For an in-depth look at TARP, please visit <http://www.treasury.gov/initiatives/financial-stability/reports/pages/default.aspx>

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## **STATE OF WALL STREET REFORM**

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### ***Our Financial System***

The Obama Administration put forth comprehensive reforms to our financial regulatory system. As a result of these reforms, our financial system is far safer and stronger today than it was prior to the crisis, and business conditions are rapidly improving. These reforms provide a solid foundation for economic growth and hold market participants accountable. As a result of steps that have been taken to date, financial markets are more resilient, consumers are better protected, and the financial system is better prepared to withstand shocks.

### ***Financial Stability Oversight***

The Dodd-Frank Act created a central point of accountability for regulators to identify and mitigate risks to the financial system, to respond to emerging threats, and to monitor developments in the financial markets. With the Financial Stability Oversight Council (FSOC), the regulatory system is now flexible enough to now impose tough prudential standards on any financial firm that poses risk to the financial system, regardless of corporate form. To date, FSOC has designated eight financial market entities (clearing houses and payment systems) and three nonbank financial companies for heightened federal prudential oversight. The FSOC is supported by the Office of Financial Research (OFR), which works to collect and standardize financial data, to perform essential research, and to develop new tools for measuring and monitoring risk in the financial system.

### ***Protecting Consumers***

With the creation of the Consumer Financial Protection Bureau (CFPB), consumers now have a dedicated watchdog within the federal government when it comes to financial matters. The CFPB has been mindful to strike the right balance between crafting new consumer safeguards while minimizing overly burdensome compliance costs so that consumers do not bear the unintended consequence of restricted access to credit.

- CFPB has written rules to reform the mortgage market, including rules requiring creditors to make good faith assessment of a borrower's ability to repay and rules addressing pervasive problems in mortgage servicing that caused many homeowners to end up in foreclosure.
- CFPB enforcement actions have resulted in more than \$4.7 billion in relief for roughly 15 million consumers. CFPB has developed consumer resources such as the "Know Before You Owe" tools to make the costs and risk of financial products more clear. Additionally, the Bureau has worked with the Department of Education to develop the "Financial Aid Shopping Sheet," which has now been adopted by more than 2,000 colleges to help students make apples-to-apples comparisons of college costs.

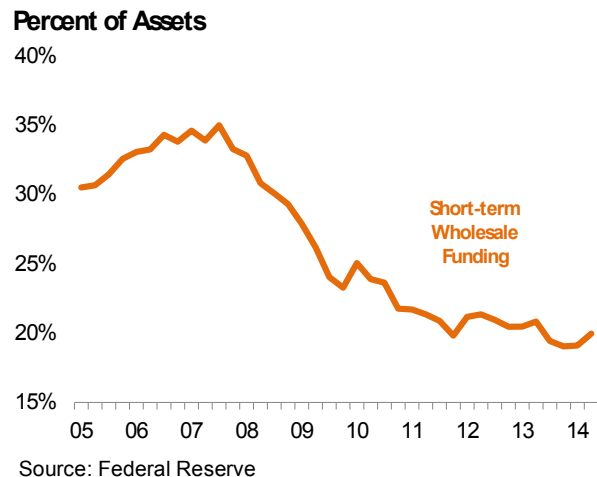
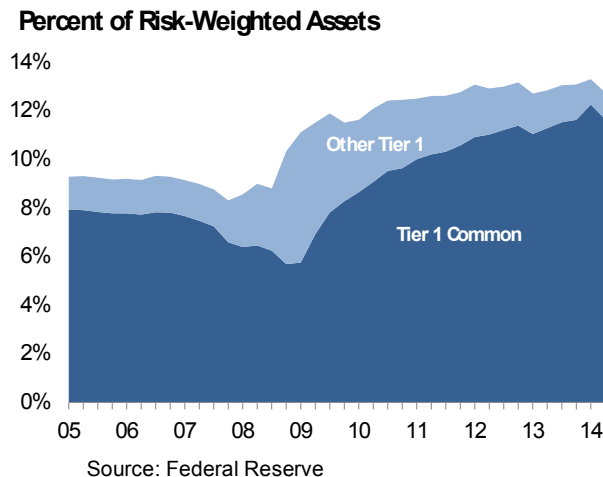
### ***Preventing Excessive Risk-Taking***

With the enactment of Wall Street Reform, the Administration and independent regulators have worked hard to implement reforms that protect taxpayers and our economy and set prudent rules of the road to foster well-functioning financial markets that fuel growth and help the private sector create jobs.

- The finalization of the Volcker Rule will change banks' behavior, limit excessive risk-taking, and separate banking from speculative trading.
- Enhanced prudential standards now apply to the largest most, complex financial firms – including capital, liquidity, and risk management standards and tough annual stress tests that force firms to simulate their capital levels through crisis-like conditions.
- American banks have added more than \$500 billion of capital over the last five years to cushion against unexpected losses, support lending to consumers and businesses, and reduce overall leverage in the banking system. Banks have also significantly reduced their reliance on unstable forms of funding that proved vulnerable in the crisis.
- Tier 1 capital, the core measure of a bank's financial strength, has dramatically increased. The tier 1 capital ratio is the ratio of a bank's core equity capital to its total risk-weighted assets.
- Bank reliance on short-term wholesale funding, which leaves institutions more vulnerable to market liquidity and risk, has decreased dramatically.

**Capital Ratios (Percent of Risk Weighted**

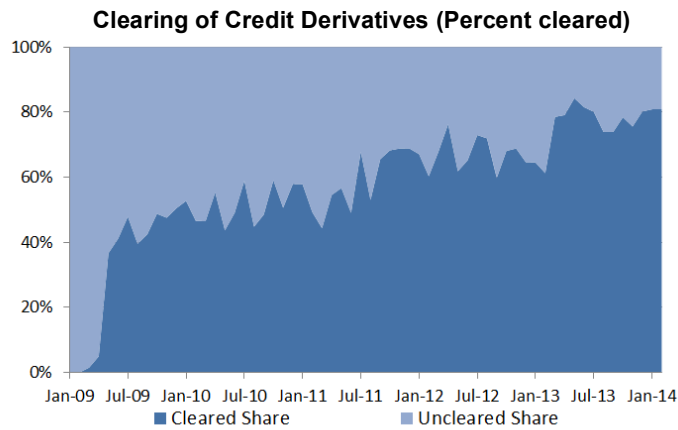
**Reliance on Short Term Funding (Percent of Total**



### ***Bringing Accountability and Transparency to Derivatives Markets***

The Dodd-Frank Act's derivative reforms bring transparency and oversight to previously unregulated markets to reduce the risk of contagion and make markets more resilient. The Commodity Futures Trading Commission has completed nearly all of its rulemakings and the Securities and Exchange Commission is working to finalize proposed rulemakings that will implement these comprehensive reforms.

- These rules require central clearing of transactions, migration to more exchange-like execution, and increased transparency and trade reporting. At the same time, U.S. regulatory agencies have been formulating stricter margin requirements for uncleared swap transactions.
- Cleared swap volumes have increased dramatically in the large and risky credit default swap (CDS) market from an average of 45 percent in the year before Dodd-Frank to roughly 80 percent in 2014. Central clearing lowers the risk of an inter-connected financial system by promoting transparency, competition and broadens access to the market by eliminating the need for market participants to individually determine counterparty risk.



Source: DTCC

### ***Ending “Too Big to Fail”***

The Dodd-Frank Act created tools to end “too big to fail” that did not exist during the financial crisis. These new tools are being used to make the financial system safer and to hold financial institutions responsible for bearing their own risk without the backstop of public support. Regulators will have the ability to shut down and break apart failing financial firms in a safe, orderly way – without putting the rest of the financial system at risk. And as a matter of law, taxpayers no longer will bear the costs for a failing financial institution – instead, private investors and culpable management will be held responsible.

### ***Looking Forward***

As we look back to see how far our nation has come and how our economy continues to grow stronger, we must remain vigilant against threats to our financial stability. Today, we have made significant progress in achieving a safer and sounder financial system, and we have the tools to hold financial institutions responsible for bearing their own risk. We will continue to monitor the changing financial system and be prepared to respond to any new risks.